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The Canadian Wheat Pools

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THE CANADIAN WHEAT POOLS

SINCE Canadians ceased to grind their grain in the hand-mills distributed to the Loyalists and began to carry it to the nearest grist mill, the problems of grain marketing have never been far from the circle of national attention. The famous English Corn Laws gave a preference to Canadian grain but the export trade could not be permanently established in those days before the railway and the steamboat. "A bloody war and a good harvest" and some other factors achieved this in the fifties and sixties of the last century, and the Canadian grain trade came under government regulation first in 1853. Grading was adopted ten years later. While the Homestead Law, McCormick's binder and the railway aided a great westward movement of wheat-growers in the U. S., the wheat trade in Canada languished and gave way to Ontario cheese, fruit and livestock. The westward road in Canada was not open until the building of the Canadian Pacific Railway in the eighties. Then wheat again emerged into a position of importance though it was only after the turn of the century that the great development of the Western belt began in earnest.

In 1900 the farmers' agitation achieved the most notable piece of grain legislation on the statute books of any country, the Manitoba Grain Act. This statute has been modified, improved and rechristened the Canada Grain Act, but the essentials are in the history making document of 1900, a true Magna Carta of the West.

Side by side with the agitation for legislative reform went a co-operative movement which succeeded in building up two large co-operative grain companies, the United Grain Growers Ltd., and the Saskatchewan Cooperative Elevator Co., individually the two largest elevator operators in the West

and together handling about a third of the total crop. These companies were unique as co-operative ventures in that they handled grain all the way from the local elevators to the sea-board and in that they operated within the existing organized grain trade. Their object was to set the competitive pace rather than remodel the entire marketing organization.*

The Demand for the Pool

During the war, many institutions went into the crucible and emerged with new characteristics. In 1917 it was discovered that the existing market machinery designed for normal use did not function perfectly under war conditions. The Allied Buying Commission with an unlimited purse bought grain futures steadily until it became apparent that unwittingly it had "cornered" the market in a manner that would have made Leiter and Patten envious. There was not sufficient wheat in the country to fulfil the contracts which had been made and an equitable arrangement was effected to release the debtors. Following this episode the wheat market was brought under control both in the United States and Canada. During the crop years 1917-18 and 1918-19 a monopoly of wheat export was held by the representative of the British Government in Canada, the Wheat Export Company. The Dominion Government appointed the Board of Grain Supervisors to control the crop within the country and a fixed price was agreed upon for these years. Market control once established did not cease with the making of peace. The next year the Royal Commission on Wheat Supplies purchased wheat for the Allied countries and in Canada the crop was marketed by the Canada Wheat Board under the able chairmanship of James Stewart, formerly President of the Wheat Export Company and now president of the Maple Leaf Milling Company. The Wheat Board, it will be recalled, marketed the crop for the producers making an initial payment of \$2.15 a bushel No. 1 Northern with further payments on participation certificates amounting to 48 cents. In the United States a minimum price of \$2.26 a bushel was guaranteed but the market was left uncontrolled.

*A study of these problems has been made in the author's *Agricultural Cooperation in Western Canada*, Ryerson Press, Toronto, 1924.

These were prosperous days for grain growers and when the Wheat Board lapsed many demands were made for its re-constitution. Still later when the price of wheat fell below \$1.00 the demands became more insistent. Though conciliatory to agricultural opinion, governments fought shy of the project of a Wheat Board at a time when all other markets were uncontrolled. The Federal Government found fortunate refuge in the contention that the required legislation would be *ultra vires*. It would be necessary that the three provinces should pass concurrent legislation establishing a Board or Pool. The Canadian Council of Agriculture recommended that a National Pool be instituted utilizing the organizations of the two co-operative grain companies. Attempts were made to have a Wheat Board established by concurrent legislation but the project was defeated in the Manitoba legislature. Following two years of bitter controversy a campaign was launched in the late summer of 1923, in which Aaron Sapiro, a well known Californian lawyer and co-operative organizer, took a prominent part. In each province "contract drives" were undertaken and an objective of contracts with growers controlling 50 per cent. of the wheat acreage of the province was established. In none of the provinces was this objective attained, but the Alberta Association having reserved the right to proceed with less than this number of contracts, decided to do so, and handled a part of the 1923 crop. Saskatchewan and Manitoba, whose campaigns had been even more hurried and less successful, decided to continue the effort in an endeavour to make full preparations for handling the 1924 crop. The next summer Manitoba was still short of her objective of a million acres but decided to go ahead with the organization of the pool. Saskatchewan achieved its objective with close to six and a half million acres under contract. With the three provincial pools now in operation steps were taken to establish the Central Selling Agency in July, 1924, and the chartering of the Canadian Cooperative Wheat Producers Limited completed the pool organization.

How the Pools are Planned

The plan of the Provincial Wheat Pools is modelled after the non-profit co-operative organizations which have done such

effective work in the marketing of the Californian fruits. The plan is designed to revolutionize not only the marketing of wheat but co-operative organization in wheat marketing. In the marketing of wheat, Canadian co-operative organization was much more advanced than was that of the United States, which had not successfully gone beyond the stage of the local co-operative elevator. Similarity in structure and methods between the American pool organizations and the Canadian Wheat Board, which was tied up in the farmers' minds with two dollars and sixty-three cents a bushel for wheat, was probably the most cogent argument for this system of marketing.

In structure the three provincial pools are almost identical. To comply with existing laws of incorporation they have a nominal capital stock. Each member on joining the association contributes one dollar for a fully paid share of capital stock and two dollars to cover organization expenses. The province is divided into districts of approximately equal contributing acreage, and each district is divided into sub-districts. The sub-districts elect delegates to the annual meeting of the company and these delegates elect the directors. Both delegates and directors are subject to recall.

The members of the Pools are those who have, as farmers, signed contracts to deliver their wheat to the Pool for sale for a period of five years. The Pool is given full powers as agent to dispose of the wheat when and where it wishes. An initial payment is made to the grower when the wheat is delivered and additional payments are made from time to time through the crop season. At the end of the crop year the full proceeds of all sales are returned to the growers after administrative expenses, elevator and transportation charges have been deducted. The Pool is empowered to deduct a further amount not exceeding two cents a bushel to be used for the purpose of acquiring country and terminal elevator facilities. Any pool member who sells wheat by any other method than through the Pool is liable to the payment of damages amounting to twenty-five cents a bushel.

The three provincial pools have set up a Central Selling Agency, the Canadian Cooperative Wheat Producers, Limited.

This Company, which operates under a federal charter, is owned by the provincial companies and managed by a board of nine members, three being drawn from each of the Provincial Boards.

A Revolution in Marketing

The Pools represent a revolution in wheat marketing in Canada. Whereas the older co-operative ventures were voluntary and operated within the recognized organization of the grain trade, the Pools operate on a contract system and are in direct opposition to much of the established order in wheat marketing.

This contract system by which a grower binds himself under penalty to deliver his entire product to the Pool for sale, has distinct advantages from the point of view of operating efficiency. The marketing agency is assured of a certain volume, and of a fair trial on the part of the members. Much depends on obtaining a considerable and reliable quantity and this the contract system is designed to achieve. To attain their various quotas each of the provinces has had to conduct a series of campaigns and "drives" and each fell short of the objective at the first attempt. The Western farmer showed a considerable resistance to the idea of a contract pool. The reasons are not far to seek. Such contracts with co-operative agencies were hitherto unknown. Indeed the whole co-operative movement up to the present has been directed toward assuring to the farmer as many alternative methods and routes as possible. The farmer's right to load his own car, to ship to the central market, to have the identity of his grain preserved, to sell when, where and how he will has been won by more than twenty years of hard fighting. Even though it is explained to him that the Pool is not a separate organization but the farmers themselves, he is not easily convinced that he should bind himself to one marketing system for five years. Further, the contract pool system was adopted by the California fruit growers before the fruit marketing system had been organized in any adequate degree. The Western farmer, however, was not faced by a stern alternative of "market or no market." Aaron Sapiro's dictum, "What you have to choose between is a long term contract with your fellow growers, or a life sentence

with the speculator", has more of sentiment than sense in it. The existing market though admittedly open to improvement was not grossly inadequate. It was but to be expected that farmers would be difficult to persuade to sign a five year contract under such circumstances. It was evidently with these facts in mind that the Stewart-Riddell report recommended a voluntary not a contract pool.

The Pool does not buy wheat from the farmer but sells it for him. It may sell wheat through the Grain Exchange or direct to the European buyers. It thus puts itself in the place of a great many agencies—local buyers, commission men, brokers, exporters, etc. In a sense it "eliminates" them but only in the sense that it undertakes itself to perform their functions. The justification of this must be found in the performance of these at a lower cost. Since it does not buy grain the Pool does not run any risks through the fluctuation of prices. A grain company which buys cash grain from the farmer, finds it necessary to "hedge", i.e. to sell future contracts to an equal amount. The fact that future and cash prices fluctuate similarly protects the dealer against possible loss with a fall in prices. What he loses on his purchases he gains on his sales. The Pool however does not "hedge" because it has no purchases and to that extent it is independent of the Exchange except as it uses it to effect its sales. Thus an entirely new principle is introduced into wheat marketing.

Its opposition to the existing grain trade and some incidents in the protracted agitation leading up to its formation have brought it about that the Pool has drawn little on the experience of the older co-operative companies, the Saskatchewan Cooperative Elevator Company and the United Grain Growers Limited. These companies have co-operated with the Pools in organization, (the U. G. G. by making a substantial loan) and by making favorable agreements for the handling of Pool grain. Several of the operating officials of the Pools have been drawn from among the employees of the older co-operative companies but a surprising number of the moving spirits are men who have recently come to the front in the farmers' movement and who have had little or no experience in the grain trade.

The Operating Results

The Alberta Pool has now started on its third year of operation while the other Provincial Pools and the Central Selling Agency have only been in operation during one complete crop season. In Alberta there are 33,000 members with 3,231,000 acres of wheat. In Saskatchewan 69,000 members control 9,331,700 acres. In Manitoba where the wheat acreage is smaller there are 15,000 members with 1,018,000 acres. This represents nearly three-fourths of the Saskatchewan acreage and well over sixty per cent. of the total.

During its first year of operation the Alberta Pool made an initial payment of 85 cents. Thirty-nine million bushels of wheat were sold at an average price of approximately \$1.03 No. 1 Northern. Administrative costs of less than 1/5 of a cent a bushel together with amounts paid for storage, insurance, etc., left available for distribution \$1.01½ No. 1 Northern. Retaining 2/3 cent a bushel as a commercial reserve the Pool brought its payments to Pool members up to the level of \$1.01 No. 1 Northern.

For the crop year of 1924-25 an initial payment of \$1.00 a bushel was made by all the Pools. More than eighty-five million bushels of grain were handled resulting, after deducting expenses, in proceeds of \$1.66 No. 1 Northern. Of this 4.30 cents was retained by the Saskatchewan and Manitoba Pools and 3 cents by the Alberta Pool as a reserve chiefly for elevator construction. During the year the price of grain fluctuated greatly, reaching a high point of \$2.20 in January, 1925. These high levels were, however, only maintained for short periods and from the first of March on the price fell. To the average farmer the proceeds of the Pool were satisfactory and the Annual Meetings held in August showed remarkable unanimity among the members as to the success of the year's operations.

The disposal of the year's crop at remunerative prices is not, however, scientific evidence of the efficacy of the Wheat Pool. It was difficult for the grower to dissociate in his mind the Canada Wheat Board and the high price levels of 1919-20 and yet there is no evidence to show that the Canadian farmer obtained a higher price because of the activity of the Wheat Board. The Wheat Board paid a total of \$2.63 a bushel but

the weekly low price for No. 1 Northern wheat in Minneapolis only went below \$2.63 during three weeks of the entire crop year, and so the United States farmer with competitive marketing did at least as well as the Canadian farmer with a controlled market. During the crop year 1924-5 pool members and non-members were alike gratified at the high prices received. These satisfactory prices resulted from general market conditions and are not evidence either for or against the efficacy of the pooling of wheat. A statement which has occasioned much discussion has been issued (Oct. 5th) by the Winnipeg Grain Exchange in answer to a claim by the Manager of the Saskatchewan Pool that Pool prices, even without the final payment, were "on the average much higher" than those received by non-Pool farmers. The statement, certified by Price, Waterhouse & Co., is to the effect that an audit of the books of fifteen elevator companies revealed higher average prices paid to farmers than were paid by the Pool. The following are sample comparisons, the Pool price in each case including the amount retained by the Pool as a reserve:

Grade	Pool Final Gross Price	Non-Pool Average Price
No. 1 Northern	\$1.66	\$1.668
No. 2 Northern	1.61	1.643
No. 3 Northern	1.55	1.584
No. 4 Northern	1.47	1.493

Among the other grades the difference in favor of the non-pool farmer is shown as still more. Out of a total of 30 grades the pool farmer had an advantage in only four and even here the advantage is slight. The significance of the wide spreads in prices is not as great as would appear, since the quantities of grain involved in any one of these grades is small but the difference of three cents a bushel in No. 2, 3 and 4 Northern affects a large proportion of the crop. During the previous year about half the crop fell within these grades.

The reply of Wheat Pool, it will be seen on reflection, casts doubt on the significance of the figures quoted. It is pointed out that nothing is said of the volume of grain concerned nor

of the basis on which the fifteen elevator companies were selected. Elevator companies could ordinarily give the returns of individual farmers only for wheat which had been special binned and been shipped in car lots to the central market. This would mean that only a small proportion of the quantity of grain handled by even the relatively small number of elevators was included in the statement. It is also claimed, with what justice the writer has no means of judging, that storage charges require to be deducted from the price quoted for non-pool grain. In the absence of further explanation, these considerations destroy the significance of the statement of the Exchange. It is to be expected since the pool price is paid equally to all members and is therefore an average price, that many individual sales outside the pool would be effected at both higher and lower prices. To confute the claims of the Pool it would be necessary to present true average prices for non-pool grain with evidence that practically all non-pool grain was included or that the sample was representative, and that the method of sale, the service given and the condition of the grain were comparable. This the Exchange has not as yet done. It should be noted further that it is unlikely that Pool prices would be higher than non-Pool prices since the very presence of the Pool, if it tends to raise prices at all would raise them for all alike. There is however available at present no information on which any accurate comparison of prices can be set up. Certainly at present the farmers themselves are being converted continuously to the Pool methods, evidently in the belief that it is yielding results.

Can the Pool Make Good Its Claims?

Apart from these considerations the Pool supporter may well contend that the future of wheat pooling does not depend on the results of a single year's marketing. The pool system is new and to a considerable extent untried and it is to be expected that only a qualified success will be achieved in the first years. He may justifiably point to the five year contract system as evidence that this was foreseen by the initiators of the system. Only when the first contracts have expired will it be possible to make a full and just appraisal of the Wheat Pool. There is much justice in this contention. Even though

the statement of the Grain Exchange were accepted at its face value, it does not dispose finally of the Wheat Pool either in argument or in fact. In the absence of any positive proof one way or the other it is worth while to attempt to analyse the aims of the Pool and to discuss the factors of success and failure.

The aims of the Pool as stated by its many protagonists have been extremely varied. "Marketing at cost", "elimination of the middleman", "the larger the volume the less the cost per bushel", "to get a share of milling premiums and over-ages", "orderly marketing", "the merchandizing of wheat", "organized selling", "ousting the speculator", "the substitution of merchandizing for dumping"—these are but some of the objects set forth by advocates. A pamphlet of the Manitoba Pool lists the following "evils of the present system" which the Pool is designed to correct:

"(a) The grain-handling companies have no interest in maintaining price levels for the farmer.

(b) The sellers are in competition with one another and are putting the wheat on the market regardless of the demand.

(c) We flood the market in the fall, consequently the prices fluctuate each day and every day.

(d) Speculation is rife.

(e) Spreads between low grade and contract grade wheat are sometimes out of all proportion to its true value."

It is but to be expected that any group or party, political or economic, eager for converts should overstate its case and claim some advantages slightly beyond the borderline of probability. Sir John A. Macdonald was fond of quoting the negro porter who objected to the then Prime Minister standing on the rear platform of a car: "Dis platfohm, Sah, is to git in on, not to stand on." It is difficult for any devotee not to claim too much, when engaged in proselytizing. Making this allowance, however, it is desirable that a careful examination should be made of essential claims.

The redress, which pooling or any other type of market organization can bring to the Canadian wheat grower, must be obtained in one of two ways—by increasing the price of Canadian wheat in the world's markets or by increasing the proportion of the final price which goes to the grower.

The Pool and the World Price

In the cases of rubber and coffee there have been spectacular attempts to control world prices for these commodities and the attempts have partially succeeded. The Stevenson plan for the limitation of production and export was followed by a tremendous rise in the price of raw rubber. How much was due to the plan and how much to the adoption of balloon tires is open to question. For many years Brazilian coffee has been sold under the Valorization scheme by which the crop is held over from year to year and fed to the market in such quantities as would not break the price. The De Beer syndicate has long maintained the price of diamonds by similar and more successful tactics. The Farmers' Union which originated in the Southern and Western States and has recently spread into Canada, originally had very definite plans with regard to price-fixing. It adopted the policy of demanding a minimum price for farm products as the organized workers have demanded a minimum wage for labour. The Union began in the cotton-growing states and endeavoured to set a minimum price of 11 cents a pound for middling cotton. During this year the price of cotton rose from 9 to 15 cents and attained an average of more than 11 cents. The next year a minimum of 15 cents was demanded but the price obtained was considerably less. The Union endeavoured by two means to influence the price of cotton. It advocated the holding over of cotton until late in the marketing season so as to avoid "dumping" in the fall and it advocated the curtailment of cotton acreage in the Southern States. Toward effecting the first object the Union built warehouses and obtained better provision of credit. In effecting the second object, however, the Union was unsuccessful. There was not sufficient solidarity among the cotton growers to ensure any reduction. Campaigns for reduction were apt to result in increase since growers wished to have large crops if acreage reductions on the part of other growers were likely to result in higher prices. The Farmers' Union has interested itself in many related problems and has accomplished much by co-operation and education. Efforts to improve marketing machinery, to standardize grades, improve production methods have however been much more successful



than efforts to influence prices. In attempts to influence the price of cotton the American farmer was much more favorably situated, however, than is the Canadian wheat grower in attempting to increase the price of wheat. The United States is by far the greatest single producer of cotton in the world and any curtailment of her output either by reason of artificial restriction or of the depredations of the boll weevil would have immediate and marked influence in raising the price of cotton. Of the total world production of wheat Canada contributes about 10%. Of the total wheat exports of the world, however, she contributed 41% in 1922-3. The latter figure is large and would seem to suggest possibilities of effective control. A little reflection, however, will show anyone that the smaller figure is a better index of the bargaining power of the Canadian wheat growers. An increase of 10% in the production of all other countries would eliminate the need for Canadian wheat unless a decreased price stimulated increased demand. Any attempt on the part of Canadian growers to raise their price by withholding wheat from the market would, if successful in temporarily raising the price and if persisted in, result in increasing wheat production in other countries to the detriment of the Canadian industry. It must be remembered further that in Europe, the great market for our wheat, competition is not only provided by the wheats of other countries but by other grains. Over large areas of Europe rye and potatoes are substitutes for wheat and the demand for wheat shows an elasticity quite remarkable in view of its reputation as the most necessary of the necessities of life.

There were few even among the most ardent supporters of the Pool who seriously thought that the organization could effect an increase in the world price for wheat and yet some arguments advanced in its favor would seem to infer such a possibility. Later literature issued by the Pools themselves specifically deny any such intention or power. Nevertheless on one hand the over-optimistic grower, and on the other, the European buyer have been apt to impute rising prices to the Wheat Pool rather than to the shortage of the 1924-5 crop. It is further significant that the demand for the Wheat Pool arose out of the period of depression when the price of wheat fell proportionately so far below the prices of the commodities

which the farmer had to buy. Clearly most farmers joined the Pool in the hope that it might do something to mitigate the unsatisfactory conditions of agriculture in those years.

"Orderly Marketing"

Much more attention has been devoted by Pool protagonists to the claim that by "orderly marketing", "organized selling", or "merchandizing", a higher average price might be obtained for the producer without attempting to raise the level of world prices. This claim is based on one of two assumptions: (1) That the price of wheat is depressed in the months of September, October, and November during which more than 75% of the crop is marketed. (2) That daily and weekly fluctuations in the market result in more of the farmers' grain being sold at the low than at the high prices since all that matters to the merchant or agent is the margin which he obtains.

The first of these assumptions received substantial support from the replies which Messrs. James Stewart and F. W. Riddell, formerly Chairman and Vice-Chairman of the Canada Wheat Board, gave to questions addressed to them by the Government of Saskatchewan in 1921. These men of long experience and high repute in the Canadian grain trade, stated that "under a pool with proper financial and other support the movement of the crop would be more evenly spread over the whole crop year, thereby undoubtedly avoiding gluts of grain and consequent depression of prices, which usually occur during the first three months of the crop movement." Prices for seven crop years from 1910-11 and 1916-17 were quoted in the report showing that for the seven years the average price from September to December was \$1.08 per bushel, the average price from January to August \$1.22½, and the average price for twelve months was \$1.18. These figures at once suggest the possibility of gain through holding wheat over from the fall to the spring months in order to sell it at the higher prices then prevailing. It must, of course, be remembered that wheat cannot be held over without incurring the cost of storage and of insurance and the loss of interest on the capital involved. It is therefore necessary that the price of wheat should be higher in the later months of the crop year if any

wheat is to be held over without loss. This cost, however, would not absorb more than half of the difference shown in the figures quoted by Messrs. Stewart and Riddell, which amounts to a difference of $14\frac{1}{2}$ cents a bushel on the average. If these figures are representative it is clear that "orderly marketing" offers the possibility of substantial gain.

Closer examination of the record of wheat prices does not lead however to so optimistic a conclusion. For the four pre-war years quoted above the difference between the average September-to-December prices and the average January-to-August prices is only $3\frac{1}{4}$ cents a bushel. The wide spreads occur altogether in the years 1914-15 to 1916-17. Since it was necessary in 1917 for the various governments concerned to put the wheat markets of the world under control because of the unsatisfactory functioning of the competitive factors, it would seem that these years are not to be taken as representative. A table is here presented showing the average monthly prices of No. 1 Northern wheat at Winnipeg for five year periods since 1900. The crop years begin at the dates given.

	1900-04	1905-09	1910-14	1915-19	1920-24
September . . . . .	.82	.879	1.02	1.92	1.549
October . . . . .	.814	.899	.955	1.929	1.404
November . . . . .	.804	.906	.946	2.006	1.365
December . . . . .	.778	.89	.929	1.996	1.418
Ave. 4 months . . . . .	.804	.894	.963	1.963	1.434
January . . . . .	.805	.915	.958	1.997	1.418
February . . . . .	.829	.916	1.017	1.999	1.453
March . . . . .	.843	.949	1.02	2.014	1.433
April . . . . .	.826	.954	1.035	2.043	1.415
May . . . . .	.813	.981	1.093	2.234	1.468
June . . . . .	.825	1.014	1.034	2.134	1.444
July . . . . .	.829	1.017	1.041	2.084	1.449
August . . . . .	.868	.981	1.06	2.232	1.444
Ave. 8 months . . . . .	.830	.966	1.032	2.091	1.441
Ave. 12 months . . . . .	.821	.942	1.009	2.019	1.439

It will be noted here that the average price for the first four months of the crop year is normally lower than that for the last eight months, as would be expected since grain must be stored from harvest until the month of sale. It will also be noted that the price frequently goes up substantially in May owing to the opening of navigation and the export trade.

The average difference only exceeds seven cents, during the one period 1915-1919 which because of war conditions and a fixed price during three of the five years is not to be considered representative. Examination of the prices on the Chicago and Minneapolis markets for 51 and 34 years respectively has led Professor J. E. Boyle of Cornell University to a similar conclusion.* In the face of this evidence, it is scarcely correct to say that any sure profits await the organization which holds wheat over from the fall to the spring months. Whatever its evils, speculation in grain futures has virtually eliminated the slump in grain prices in the fall. Competition among speculators is so keen that the holding of wheat from one period to another leaves only a narrow margin of gain when allowance is made for the large proportion of losses. This does not mean of course that the shrewd speculator may not make large gains. He may, but such gains are not made by any simple process of holding grain from fall to spring. They are made for the most part on the shorter daily and weekly fluctuations of the market. These fluctuations, however, occur in accordance with the estimates of dealers as to the probable supply and the probable demand. They are not affected by the volume of grain offered for sale on a particular day or certain week. There is ample evidence to show that prices bear no relation to the daily or weekly volume of receipts on a particular market. It is not correct therefore to say, "In years of slumping prices, and in the year immediately following a period of slumping prices, the unorganized farmer is under pressure from his creditors to sell at once. The market therefore becomes a buyer's market even more than the condition of demand and supply warrants. The farmer is at the same disadvantage as the unorganized workman bargaining for wages with starvation staring him in the face."** The Western farmer may be handicapped for credit during the growing season but there is ample credit for marketing. Ignorance of the market may lead him to sell but lack of credit does not compel it. The banker ranks threshed and stored grain as first-class security.

There is another fallacy in frequent service in advocacy

*The writer is indebted to Professor Boyle for copies of these figures.

**C. R. Fay, *Agricultural Cooperation in the Canadian West*, p. 463, reprinted from the same author's *Cooperation at Home and Abroad*.

of "orderly marketing". It is well expressed in a leaflet of the Manitoba Wheat Pool. "There is an average daily turnover on the Winnipeg Grain Exchange of 12 million bushels, not more than $1\frac{1}{2}$ millions of which represents actual wheat. Allowing for sales to an equal amount for the purpose of hedging, that is, a total of 3 million bushels, there is left an average daily balance of about 9 million which represents gambling or speculation in "paper" bushels or in wheat that is not grown. Every additional sale tends to bear down the price: speculation therefore tends to have a detrimental effect on the markets". A moment's reflection will make clear that no such effect follows. Speculators are not necessarily sellers. For every seller there is a buyer and every sale is also a purchase. Speculators are not more interested in "bearing" than in "bulling" the market. The speculator tends to equalize prices to both farmer and consumer by buying grain when the price is low and selling it when it is high. In so far as he is successful he tends to raise low prices and depress high ones. He helps to stabilize the market. The cost of this service is his net gain, large in the case of some individuals—not large in the case of the whole group. It may be that the Pool may be able to stabilize prices at less cost than through the speculator, but it is mere demagoguery to represent the speculator as an Old Man of the Sea or to contrast "a long-term contract with your fellow-growers" with "a life sentence with the speculator."

It is clear from the foregoing that "dumping" the wheat crop as popularly understood has not depressed the cash prices for wheat at Winnipeg in any predictable way and that the mere spreading of marketing over the twelve months of the marketing season is not going to affect significantly the comparative cash prices for the different months. Indeed, during 1924-25 when the pool was operating there was a spread of more than 15 cents a bushel between the average price from September to December and the average price from January to August. This difference of course had nothing to do with the arrival of Canadian wheat on the Winnipeg market. It represented the changing estimates of dealers of the extent of the world shortage. The same factors might have resulted in a slump during the spring months under different circum-

stances. On the whole this seems to be well recognized now and there has been lately little reference by responsible pool officials to depressed prices in the fall.

“Orderly Marketing” and the “Street” Price

Another aspect of this problem of seasonal marketing has attracted less popular attention. For thirty years and more, however, controversy with regard to the grain trade has concerned itself to a considerable extent with the difference between “street” and “track” prices for grain. Both of these are prices at country points but “track” grain is loaded on a car and ready for shipment while “street” grain is bought from the farmer’s waggon by the local elevator. With “track” grain the date of its arrival at the head of the lakes is known approximately and the local elevator does not assume usually responsibility for the grade. “Street” grain is bought in smaller quantities, can only be shipped as cars are available, and the elevator pays on the basis of an estimated grade before the final grade has been determined at Winnipeg. The “street” price is normally less than the “track” price because of the greater cost of handling in small quantities, the responsibility for the grade, but chiefly because of the longer period elapsing before the time of shipment and arrival.* The longer this interval the greater the margin taken by the buyer to cover storage and interest charges. In the first decade of the century when car-shortages were frequent, the spread between “street” and track prices was considerably greater than at present. It is the “street” price however which may be depressed by a “dumping” of the wheat crop on the market. This may occur not because “the supply exceeds the demand” but because the volume of grain is so great that elevators and railways are congested and the period between its purchase from the farmer’s waggon and its arrival at the Head of the Lakes when it becomes saleable, is prolonged and the price is in consequence depressed. Because of its power to control the delivery of wheat to it, the Pool can pay the same prices for “street” as for “special binned” or track grain except for such differences as are occasioned by

*Over 50% of the grain is sold in this way. *Report of Royal Grain Inquiry Commission, 1925, p. 11.*



differences in the cost of storage and handling. On this basis the United Grain Growers Ltd. has agreed to handle Pool wheat delivered on the "street" at a cent a bushel less than its regular margin on "street" wheat. There have not been of late serious tie-ups in transportation and so the spread between street and track wheat has not been as serious as in earlier years.

An important aspect of the "street" wheat problem is the fact that for years the "street" price has been depressed in comparison with track price because of losses on other elevator transactions. The maximum rate for handling special bin grain (i.e. grain specially stored in locked 1,000 bushel bins so that its identity is preserved) was set by the Board of Grain Commissioners at $1\frac{1}{4}$ cents a bushel and later at $2\frac{1}{2}$ cents a bushel. The universal testimony is that this rate does not cover the cost and that the loss is recovered out of the lower prices paid for "street" wheat. When the Board of Grain Commissioners raised the maximum rates, only the Cooperative Elevator Company availed itself of the liberty to raise its rates. The other companies alleged that if the rates were raised the larger producers loaded their own cars on the platform rather than use the elevator. The smaller producers had not this alternative as they could not fill a car and so the loss on elevation and storage was recovered out of the wider margin exacted on "street" wheat. This situation the Pool can remedy as the Cooperative Companies were remedying it, by making each variety of handling pay its own costs.

The Pool and Speculation

There remains a second assumption to be considered with regard to the advantages of "orderly marketing". It is assumed that daily and weekly fluctuations in wheat prices result from dealers and speculators selling at high prices and buying at the low rather than the high prices. A clear statement of this assumption is rarely made but it has frequently been implied that speculation depresses the price for wheat until it is in the hands of the dealer and then enhances the price to the consumer. This, of course, the speculator has not the power to do even though it were to his interest to attempt. It is not

true that farmers' grain, sold in the open market, is disposed of necessarily at the low prices. It is true, however, that the position of the speculator is much more difficult to justify with regard to the daily and weekly fluctuations of wheat prices than with regard to the longer swings of months or seasons. It is much more possible for the former to be within limits controlled by speculative groups. The chief sufferer, however, has not been the farmer but the inexperienced speculator or "lamb" who, to mix metaphors, has taken a "flyer" in wheat.

So cautious an economist as Professor Taussig has been led to state that the New York Stock Exchange "is at once the greatest institution in the world for facilitating investment and the greatest of gambling hells". Much the same might be said of the Winnipeg Grain Exchange. Years ago Mr. E. A. Partidge characterized the Exchange in a report to the Saskatchewan Grain Growers as "a combine with a gambling hell thrown in", and certainly the wild speculation of last year lends lurid colour to the charge. Such statements, however, do not conclude the whole matter. Speculation in spite of its obvious abuses has performed notable functions. As long as grain was bought and sold competitively speculation, as pointed out earlier, afforded a means of "hedging" sales and purchases and thereby protecting the legitimate dealer in grain or miller from speculative losses. Without this means of protection against fluctuating prices, mortality in grain businesses would have been much greater than it has been and a wider margin of profit would have been necessary to cover possible losses. But speculation when carried on by dealers of repute and experience has another justification, as has been explained above. Speculation by such persons has been the chief factor in stabilizing prices between the different seasons. A speculator gains by selling at high prices and buying at low prices. He gains only in so far as he is successful in forecasting the high and low points of prices. By buying at the low points he tends to raise prices and by selling at the high points he tends to lower prices, thus evening out the fluctuations of the market. Only, however, the expert, experienced speculator who forecasts correctly performs this useful function. The inexpert, inexperienced outsider is as likely to buy at high prices and be forced to sell at low and so



aggravate rather than modify existing fluctuations. Unfortunately there is a very considerable volume of speculation by outsiders or "lambs" and their operations were apparent in the wide fluctuations of the Winnipeg Exchange in 1924-5. Still more unfortunately, a great many of those "lambs" were farmers. Such speculation performs no more useful function than a Crown and Anchor game. It is gambling for the speculator and demoralization to the market.

There is no need to suppose that the prices paid to the farmer are always the low prices nor that the professional speculator bears down prices. The professional speculator is much less dangerous than the amateur whose forecast is probably hopelessly inaccurate and whose "hunch" leads him to buy with a rising market and sell in a falling market and so aggravate the instability of prices. It is probable that the high proportion of "outside" speculators in wheat last year, due to the withdrawal of a considerable volume of wheat from the Exchanges by the Pool, had something to do with the greater instability of wheat prices. Speculation by well informed speculators makes for stability; speculation by an ill informed public makes for instability.

Aside from the demoralization inseparable from widespread gambling price instability is in itself an evil. It means that wider margins are necessary to offset possible losses not fully covered by "hedged" in the trade. It also means that farming as a business has less stability. Unless an expert seller the individual farmer is likely to sell without consideration when prices are low. Some farmers will get high prices and some low but the risk of farming is increased.

Stabilizing the Price to the Farmer

Here is a place where the Pool may perform an important function. If the bulk of the wheat crop is handled by a Pool which does not buy to resell, but which sells for the producer, there is no need for hedging except by millers and speculation becomes confined more and more to the "outsiders". If the Pool enlarges its volume in the next few years it is safe to say that drastic reforms may be required to restrain speculation on the part of the public in times of rising or falling prices. The Pool proposes to substitute for the speculator who

makes money by shifting wheat from periods of low prices to periods of high prices, a system of "orderly marketing" by which wheat will be fed to the market in such a way as to obtain the highest possible price. This sounds much easier than in practice it is. There is no reason to suppose that the officials of the Wheat Pool will be any more expert in forecasting prices than are speculators. In so far as the Pool and other agencies eliminate "outside" speculation, price fluctuations will be reduced and it is possible, though not highly probable until Pool officials have obtained much greater experience than they have had up to the present, that a price somewhat higher than the average of present fluctuations may be secured. It *may* be in other words that the Pool can perform the function of the legitimate speculator, that of stabilizing prices, at a lower cost or margin. It is not to be expected that this will result in much larger prices being paid to farmers than at present though if by the Pool and other means the volume of illegitimate speculation is reduced it should be possible to carry on the grain trade on reduced margins. But whether or not the Pool can reduce price fluctuations, it can protect the farmer from those fluctuations. The most important effect of the Pool is that all farmers receive the same price regardless of the way in which the wheat is sold. The only differences arise from differences in grade and difference in distance from the market. All the farmers may not get more than all the farmers previously got. Pool farmers may not get more on the average than non-pool farmers. It is decidedly better for agriculture, however, that all should get the average price for the year rather than that some should get high and some low prices. Anything that has a stabilizing effect makes wheat growing less of a gambling and more of a home-building industry. The Pool cannot to any extent eliminate fluctuations in wheat prices but it can stand between those fluctuations and the individual farmer.

Possible Savings in Handling

The proportion of the final price of wheat which goes to the farmer may be somewhat increased from savings in the handling of grain. It is claimed with considerable justification that if a large proportion of the wheat crop is handled



by a single organization from farm to seaboard several middlemen's charges may be saved without incurring proportionate administrative costs. Commissions on the sale and purchase of wheat amount to about 3 cents a bushel while the cost of operating the Pool has been less than a cent a bushel. On transportation rates the Pool can effect no saving as these rates are determined by factors over which it has no control. Storage and handling charges are regulated by the Board of Grain Commissioners. They might be subject to reduction however, if the Pools owned their own elevators. It is evidently with this purpose in mind that a beginning has already been made in the acquisition of elevators. Saskatchewan has already led the way by acquiring 86 country elevators and a terminal elevator at Port Arthur. Here again however there is no easy road to profits. The Pool will only be able to reduce the cost of storage and handling, if it can so regulate the delivery of grain as to increase the volumes handled by individual elevators. If deliveries can be so adjusted that elevators can be filled three times or more in the same year a reduction may be achieved. This volume will be reached in some years but in others short crops will result in reduced volume and increased costs per bushel. Improvements here as in other fields can only result in a small gain as the total charge involved is only about 3 cents.

There are further small gains to be made in the terminal elevator business. Nothing can be gained out of terminal storage, as it has been repeatedly shown that the rates are not sufficient to cover costs. Deficits on this score have been made up by "overages". Wheat is weighed into the terminals and weighed out for shipment and usually the amount weighed out exceeds the amount weighed in although occasionally the reverse is true. The chief reason is that wheat is sent in subject to dockage. This means that it is estimated that by cleaning a certain percentage of foreign matter out of the wheat it will be brought to the standard of a given grade. Frequently it is possible to clean the wheat to grade without reducing its weight by all of the estimated dockage. What remains in the elevator after all outstanding warehouse receipts have been met belongs to the elevator and, until recently, was sold by them. Latterly overages in excess of 1% have been confiscated

by the Board of Grain Commissioners. More possibility of gain exists in the private terminals where it is permissible to mix grain. Grain is so mixed that a larger proportion falls into the higher grades and a smaller into the lower grades. This is possible because there are variations within the grades and a small amount of a lower grade may be added to a higher without reducing it to the next lowest grade. This practice is followed by all the elevator companies in their private elevators and can be carried on quite as profitably by the Pool.

In certain years high quality grain which will pass high protein test commands a premium over the regular market price and this premium ordinarily goes to the elevator company, unless the farmer sells directly to a milling company's elevator.

This prolonged discussion of the possible gains through Pool marketing will have made it clear, it is hoped, that there are gains to be made but that they are not spectacular or extensive. The Pool cannot raise the world price for wheat. "Orderly marketing" cannot result in any considerable gain through a different seasonal distribution of sales for "the normal depression of wheat prices in the fall" is a myth. The Pool method of equal payments to all farmers on a Fort William basis, will give a much needed stability to farming. Small gains may be made. A better price can be given the small farmer for "street" grain by distributing the crop more evenly over the year. Savings can be effected in handling and storage by increasing the volume per elevator, by eliminating several buying and selling operations and by retaining for the farmers profits on mixing, milling premiums, etc. The total of such gains cannot be more than a few cents a bushel and they can only be made by careful and wise management. Any departure from a high standard in management will wipe out these gains and much more. The most substantial advantage of the Pool to the West, it is ventured, will be found to be the better relative position of the small farmer selling his grain by the wagon load and the greater stability resulting from the Pool system of one price to all.

Some False Hopes

It has already been said that much more has been claimed



for the Wheat Pool than can ever come out of it. Many of the claims made for it were groundless; many were mere rhetoric. So shrewd a man as Mr. H. W. Wood, then President of the Canadian Council of Agriculture, when asked what reason there was for the fall in the price of wheat in the fall of 1920 was reported to have answered: "From the standpoint of the law of supply and demand there is absolutely none; the only reason in the world is the inefficiency in the selling of wheat this year".* Such a statement of course ignores obvious facts of increased supply during that and the succeeding years. It is indicative of the state of mind which connected the controlled buying of the Wheat Board with high prices and looked to a similar organization to bring back the halcyon days of two dollar wheat. As long as the world's wheat crops depend on the vagaries of the seasons, prices of wheat will fluctuate from year to year according to the available supplies.

Relative Purchasing Power of No. 1 Northern Wheat
in Canada

Calendar years	1913	1920	1921	1922	1923	1924
Over all commodities	100	116.9	108.8	92.1	80.3	93.4
Over manufact'r'd goods	100	117.9	103.9	90.3	77.3	91.9

The example of the California Fruit Growers' Exchange had a powerful effect in bringing adherents to the Pool. The Californian and Danish experiments in co-operative marketing have been most remarkable successes and of far reaching social consequence. It is important to note, however, that they have handled commodities very different from wheat, commodities which lend themselves much more to the "merchandising" activities of which so much was heard in Aaron Sapiro's campaigns. The great achievements in the California experiment have not been elimination of the speculator or stabilizing the price. They have been (1) the improvement of the grade of fruits so that a larger and more permanent market may be built up, and the product arrive at the eastern market in a better condition, (2) the extension of the consumption of fruits by an energetic advertising and branding policy, and (3) the perfecting of a system of rapid transporta-

**Globe*, October 21, 1920.

tion and distribution combined with the diversion in transit of fruit from one market to another to avoid gluts of various markets with a highly perishable product. The achievements of Danish co-operation have been similar, for Danish products are also perishable goods sold to the consumer without further manufacture. Too much emphasis cannot be laid on the fact that of these achievements, grading and an effective transportation and distribution system have already been perfected in the field of grain marketing, and that the market for wheat, an age-old staple, is not susceptible of extension through advertising and modern merchandizing methods. It may be that such methods may be applied in different ways later if the Pool grows larger and becomes permanent. Such a co-operative organization might be expected to show more initiative and resource in extending the market into areas of Europe and Asia where rye, potatoes and rice now occupy the place which wheat occupies in the diets of Western nations. If the market for Canadian wheat is to be extended in the present wheat-eating countries, it will have to be done by creating a demand for flour of high protein content and great baking strength and by persuading European peoples who now use blended flour to demand the "patent" flour so ruinous to digestion on this continent. At present the country with the largest per capita consumption of wheat, France, uses little of our hard wheat. "Canadian flour and B vitamins" may appear on European bill-boards in days to come but it will only come when the Pool has expanded into the milling business, which it is not ready to do at present.

Success—Not For Reasons Alleged

Given reasonable management and barring accidents the Pool will succeed, that is, it will persist as a marketing agency, though it may undergo modifications from time to time. It will not persist and flourish however for the reasons alleged in the early propaganda for its establishment. The aims, which furnished the most successful popular catchwords, are the furthest removed from realization. The Pool will succeed for the reasons which brought success to the United Grain Growers Limited and the Saskatchewan Cooperative Elevator Company. It can, as these companies did, effect substantial



if not spectacular savings through handling wheat more directly and in larger volume. It brings the farmer into more direct contact with his market and makes him a better informed and more intelligent producer. It gives him more effective participation in the activities which control the conditions of his livelihood. The Pool commands greater trust and confidence among the farmers who do not believe in the complete effectiveness of competition as a method of control in the trade. There is greater inducement for the farmers themselves to take steps to improve and extend markets than for the middlemen of the trade.

Dissension Among the Cooperatives

A final question emerges. Is the Pool capable of doing anything which was not within the power of the co-operative companies? The answer is, No, provided those companies had been able to extend their membership to a similar size. The companies had about half the number of members now contributing to the Pool. During the years immediately preceding the institution of the Pool the growth in membership had not been rapid. Neither company had paid patronage dividends on its grain business and it is probable that no further great expansion could have taken place until this principle was worked out and established. In the early days it was a fortunate accident probably which prevented the payment of dividends on the volume of grain handled. As the writer has pointed out elsewhere*, the companies could scarcely have built up their immense reserves and solid financial basis if profits had been dispersed on a patronage basis. It was capital thus acquired that permitted expansion into every stage of the grain business, into livestock marketing and built up to a considerable extent the widespread educational work of the Grain Growers' and United Farmers' Associations. It is fair to say that the Wheat Pool could scarcely have been established had it not been for the experience and capital and public confidence gained in the co-operative companies. For these companies operating complex grain businesses, without pat-

*See the writer's *Agricultural Cooperation in Western Canada*.

ronage dividends, it was a difficult matter to change to the more orthodox basis once financial requirements permitted it. Probably too the force of inertia and to some extent the self interest of the shareholders who had been courageous enough to build up the companies while others stood by, opposed the change to a patronage payment basis. The rivalry between the U. G. G. and the "Sask. Coop." also stood in the way of progress, a proposal for amalgamation having been rejected. The competition also between the more militant Farmers' Union and the veteran Grain Growers' Association in Saskatchewan brought support for a new organization as opposed to the existing companies. All the reasons, business and personal, cannot be known but at any rate the Western farmer has now two sets of co-operative grain marketing organizations which have been operating under a working agreement but have lately broken out into open disagreement. The Saskatchewan Pool has entered the local elevator field where it comes into direct competition with the Cooperative Elevator Co. The result of such dissension can only be fatal to all concerned. It is greatly to be regretted that an amalgamation did not take place eight years ago. It will rest now with those farmers who are members of both organizations to exert sufficient pressure to force agreement. The older companies must realize that a modification of their existing policy was necessary if membership was to be increased, and that they must be ready to see organizations which they have laboured hard to build up lose their identity finally if not immediately in more comprehensive institutions. The younger spirits who have carried on the Pool movement with such enterprise and vigour must remember that they are writing not a first but a middle chapter in co-operative marketing and that they are building on the foundations laid with skill and patience and a high sense of public service by men of the U. G. G. and "Sask. Coop." As the leaders of the Pool see clearly that the results their organization can accomplish, are limited and somewhat less spectacular than professional organizers are prone to paint them, but that there are substantial gains still ahead of co-operative marketing of grain, if unity, and a lofty conception of public trust

are achieved, it is to be hoped that disunion and dissension will disappear and the system of co-operative marketing of grain, which is the most distinctive institution apart from our constitution that Canada has yet produced, will go on to new achievements, toward the building up of prosperous, forward-looking and happy agricultural communities.

W. A. MACKINTOSH.

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